

**STATEMENT BEFORE THE HOUSE BANKING
AND FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY**



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BY

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**TESTIMONY OF ASSISTANT SECRETARY FOR HOUSING/
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Chairman Lazio, Ranking Member Frank and members of the Subcommittee, my name is William Apgar and I am the Assistant Secretary for Housing and the Federal Housing Administration Commissioner. I am pleased to be here today on behalf of HUD Secretary Andrew M. Cuomo, and would like to thank you for the opportunity to testify on H.R. 1776, "The American Homeownership and Economic Opportunity Act of 1999".

First though, I would like to offer the Subcommittee an update on the Federal Housing Administration's (FHA) ongoing efforts to promote homeownership. As most of you know, FHA has been one of the country's leading providers of single family mortgage insurance for more than 65 years. This year FHA is on pace to insure more than 1.3 million loans representing a record \$120 billion in insurance authority. With two weeks to go in the fiscal year, FHA already has made more insurance commitments to American communities in terms of dollar volume than in any other year in our history. I also am pleased to report to the Subcommittee that FHA's program activity continues to be focused on fulfilling our public purpose mission. More than 80 percent of all FHA-insured purchase mortgages this fiscal year will go to first-time home buyers – families who are for the first time achieving the dream of owning their own home and gaining access to what is the primary source of savings in today's economy – building equity in a home.

And, Mr. Chairman, I am particularly proud of our current performance in mitigating losses to the FHA fund by helping more borrowers in default stay in their home. Through the end of August, eleven months into the current government fiscal year, FHA paid 24,685 loss mitigation claims. We expect to close the year having paid just over 27,000 claims, 81 percent of which will support homeownership retention, with

the balance providing homeowners an alternative to foreclosure through pre-foreclosure sales and deeds-in-lieu of foreclosure. This level of activity is two-and-a-half times the loss mitigation actions taken in FY 1998 when FHA paid 10,900 claims. While interest rate changes may well cause a reduction in the percent of loan modifications used (46 percent in FY 1999) in the coming year, FIIA anticipates a commensurate growth in the percent of partial claims. Therefore, we anticipate the planned program changes and continued outreach to FHA lenders will increase use of the program by an additional 30 percent in FY 2000 – when FHA should take more than 35,000 foreclosure avoidance actions.

Clearly, Mr. Chairman, HUD and FHA, under Secretary Cuomo's leadership, are back in the business of promoting homeownership. Still, there is much more the Administration and Congress can do to help more Americans become homeowners. I would like to commend the Subcommittee for its desire to reduce regulatory barriers to developing affordable housing and promote an inclusive process for setting manufactured housing standards. Secretary Cuomo and I support attempts to reduce barriers to affordable housing development. Furthermore, we support provisions of H.R. 1776 that would create grants to support barrier removal strategies, establish an information clearinghouse, and require local jurisdictions participating in HUD's CDBG program to make a good faith effort to remove barriers identified in their Comprehensive Housing Affordability Strategy (CHAS). However, the Administration remains concerned that provisions of H.R. 1776 that require a housing impact analysis may duplicate existing requirements and delay the rule making process. Federal agencies are already required to consider costs and benefits when developing a proposed rule and produce an economic analysis for major rules.

Manufactured Housing

Secretary Cuomo and I also generally support provisions of the bill that relate to manufactured housing. As many of you are aware, manufactured housing plays an increasingly vital role in providing affordable housing for American communities. This Bill would provide overall a reasonable statutory framework for an inclusive, consensus approach to developing building standards for the manufactured housing industry. It also provides important resources to the Department to help ensure effective oversight of the industry. Furthermore, Mr. Chairman, I look forward to continuing to work with you and other members of the Subcommittee to broaden support for provisions of the Bill that pertain to manufactured housing.

Transfer of Unoccupied and Substandard HUD-Held Housing

Mr. Chairman, despite the Department's general support for the manufactured housing provisions and for certain aspects of the regulatory barriers removal section of H. R. 1776 identified above, there are several other provisions in the Bill that cause great concern and would result in significant negative impacts on the Department and the American taxpayer. Possibly the worst of these ill-conceived and unnecessary provisions are those requiring HUD to offer every vacant or substandard real estate owned (REO) single family and multifamily property to local governments and/or community based development corporations. Although these provisions are not entirely clearly written, they would appear to require HUD to offer every property to a local government or community developer for a deeply discounted price, equal to just the carry costs incurred after acquisition. This could result in more than \$3 billion in losses to the FHA fund from foregone sales revenue from the single family (REO) inventory alone.

H.R. 1776 appears to require FHA to offer all REO properties to local governments and nonprofit developers for a price equal to HUD's cost of carrying the property following acquisition (carrying costs typically include the cost of property taxes, maintenance, etc.). For single family REO properties, for example, FHA averages

approximately \$3,500 to \$5,000 in carrying costs per single family property. Requiring a price equal to the carrying cost, excludes the cost to FHA of paying the insurance claim on every foreclosed mortgage, which is by far FHA's most significant expense incurred on all REO properties. Furthermore, selling properties at this price would represent a discount of more than \$50,000 per property from the current average sales price of approximately \$55,000 per property. With nearly 65,000 single family REO sales last year, this provision would have cost the FHA approximately \$3.25 billion. Moreover, sales of multifamily properties at these discounted levels would represent further losses to the FHA fund.

As many of you are aware, Congress created the FHA single family insurance fund to be financially self-sustaining – with the revenues collected from premiums and proceeds from property disposition used to offset the expense of paying insurance claims and operations. Today the single family fund operates at no cost to the taxpayer. During strong economic times, such as we are experiencing today, we need to make sure the FHA remains in good financial health, so that it can weather potential economic downturns and their potential impact on mortgage insurance claims in the future. This proposal, which could reduce Fund revenues by more than \$3 billion annually, could threaten the FHA Fund's financial stability.

In addition to being extremely costly, Mr. Chairman, these provisions are not necessary. FHA already has an aggressive program to sell both single family and multifamily REO properties to local governments and nonprofit community based organizations. Through our existing single family direct sales program, FHA sells properties located in revitalization areas to local governments and nonprofit developers at a 30 percent discount. This program offers a substantial, but not irresponsible discount, and it is limited to properties located in economically distressed revitalization areas. Through this program, FHA will sell approximately 6,000 properties to local governments and nonprofit developers this year. Furthermore, over the last two years, 29

of the 44 total REO multifamily properties FHA has sold went to local governments, local public housing authorities or community based nonprofit developers.

Moreover, FHA is piloting a new expanded approach to selling single family REO properties to local governments and nonprofit developers, which Congress mandated in new property disposition legislation approved last year. Under this approach, FHA will enter into agreements to transfer all REO properties within designated revitalization areas (both those properties currently in inventory and those that flow into the FHA inventory in the future) to local governments. This new approach will give local governments greater control over homes in their communities and it also will expand the number of properties FHA sells to local government and nonprofit developers.

HECM Refinance Provisions

I also am very concerned with provisions of H.R. 1776 that would permit virtually no cost refinancing of HUD's Home Equity Conversion Mortgages -- the HECM loans. Mr. Chairman, I am proud of HUD's role in creating the first reverse mortgage, an important innovation that has spurred a variety of similar products in the private market that help seniors reap the benefit of equity they've accumulated in their homes. I also believe that making reverse mortgages accessible to seniors of all income levels is a worthy goal. However, I am concerned that provisions of H.R. 1776 that would require virtually no premium on HECM refinances is ill conceived. These provisions too would cost the Department and American taxpayers millions of dollars every year.

Higher Income Limits for HOME and CDBG Funds

HUD also opposes provisions of H.R. 1776 that would relax existing income targeting for use of HOME and CDBG funds. With limited availability of HOME and

CDBG funds, Secretary Cuomo and I believe that all funds should continue to be targeted to those families most in need – households earning 80 percent or less of median income. H.R. 1776 would effectively take these limited funds away from needy families, by raising income limits to 115 percent of area median income.

Section 8 Subsidies for Downpayment Assistance

H.R. 1776 would further liberalize new homeownership opportunities for low-income families provided by the FY 1999 VA/HUD Appropriations Bill, by reducing or eliminating the cash barrier to purchase posed by mortgage down payment requirements. While the Administration generally is supportive of efforts to explore new approaches to promoting home ownership, we are concerned that these provisions could prove unworkable if participating families do not otherwise qualify for a mortgage. At present, the Administration still is reviewing these provisions and reserves the right to comment further in the future.

UNNECESSARY PROVISIONS

Finally, Mr. Chairman, the Bill contains a number of provisions that I believe simply are not necessary. These include provisions that would:

- **Create a neighborhood teacher program.** As you may be aware, Secretary Cuomo announced HUD's new Teacher Next Door program several weeks ago. FHA already has the statutory authority to pursue the program outlined in H. R. 1776, and we will begin selling REO homes located in revitalization areas to teachers at a 50 percent discount within just a few weeks;

- **Require a study of a mandatory inspection requirement for single family mortgage insurance.** Here again, I believe Secretary Cuomo already has addressed this issue when he announced in June, 1999 that HUD was implementing the Home Buyer Protection Plan, a comprehensive reform of FHA's appraisal requirements. With this new initiative FHIA adopted the most thorough appraisal requirements of any major home mortgage finance organization in today's market. The Home Buyer Protection Plan requires appraisers to capture a substantial amount of information on the physical condition of the home. Moreover, as part of the Plan, HUD, the National Association of Realtors and the Mortgage Bankers Association are jointly pursuing a major consumer education campaign to promote the importance of a home inspection and to urge all FHA borrowers to consider getting an inspection prior to purchasing a home.

H.R. 595 – A Costly and Ill-Conceived Loan Loss Mitigation Proposal

Finally, Mr. Chairman, I understand that additional provisions are under consideration for inclusion in H.R. 1776. Specifically, a witness here today will advocate for incorporating H. R. 595 into H.R. 1776. I believe this would be a terrible mistake. As I mentioned previously, FHA's new Loan Loss Mitigation Program, which was created by Congressional mandate in 1996, is really starting to produce results. This fiscal year, FHA will help more than 27,000 families avoid foreclosure through this Program.

H.R. 595 would require HUD to adopt a Pennsylvania HEMAP-style program that has experienced modest success serving a highly select, small group of conventional borrowers. Applying this model to FHA borrowers, who tend to have significantly poorer credit quality than conventional borrowers and therefore pose a much greater risk of default, would cost FHA approximately \$200 to \$300 million annually. Furthermore, H.R. 595 in many respects mirrors the old HUD Mortgage Assignment Program – a

program that was judged by Congress, the HUD Inspector General and the General Accounting Office (GAO) alike to be an absolute failure.

Rather than adopt this costly and cumbersome approach, I would suggest that any interested parties work with HUD to improve our existing program. While I am very excited by our Program's results this year, I also believe that working together with the interested parties we could make improvements without entirely altering the program in the costly fashion that H.R. 595 suggests.

Conclusion

In conclusion, I again would like to reiterate my general support for provisions of H.R. 1776 that would create a statutory framework for a more inclusive, consensus approach to making manufactured housing standards, and reduce regulatory barriers to developing affordable housing by creating grants to support removal strategies, establish an information clearinghouse and require a good faith effort to reduce barriers on the part of jurisdictions participating in the HUD-CDBG program. Unfortunately, however, the positive aspects of these provisions are offset by other provisions of the Bill that would wreak havoc on FHA's operations and have a significant negative impact on FHA's balance sheet. As currently drafted, Mr. Chairman, I am afraid that the negative provisions of H. R. 1776 far outweigh the positive -- and for that reason, the Administration cannot endorse this legislation at this time.